

IP 11.5% Bonds

OFFERING MEMORANDUM

CONFIDENTIAL

\$550,000,000
Illinois Power Company
11½% Mortgage Bonds due 2010

We are offering \$550,000,000 aggregate principal amount of 11½% Mortgage Bonds due 2010 (the "Offered Bonds"), \$150,000,000 of which are being offered on a delayed delivery basis subject to approval by the Illinois Commerce Commission (the "Delayed Delivery Bonds"). Interest on the Offered Bonds is payable on June 15 and December 15 of each year, beginning June 15, 2003. The Offered Bonds will mature on December 15, 2010. We may redeem some or all of the Offered Bonds at any time on or after December 15, 2006. Before December 15, 2005, we may redeem up to 35% of the aggregate principal amount of the Offered Bonds with the net cash proceeds of qualified equity offerings or cash contributions to our common equity capital. The redemption prices for the Offered Bonds are set forth under the heading "Description of the Offered Bonds" beginning on page 56 of this offering memorandum.

The Offered Bonds will be secured equally with all other Mortgage Bonds outstanding or hereafter issued under our General Mortgage Indenture and Deed of Trust dated as of November 1, 1992.

The Offered Bonds are expected to be eligible for trading in the PortalSM Market, a subsidiary of the Nasdaq Stock Market, Inc. We do not intend to apply for listing of the Offered Bonds on any securities exchange or for the inclusion of the Offered Bonds on any automated dealer quotation system.

Investing in the Offered Bonds involves significant risks. Please read "Risk Factors" beginning on page 8 of this offering memorandum.

PRICE: 97.48% PLUS ACCRUED INTEREST, IF ANY, FROM DECEMBER 20, 2002.

The Offered Bonds have not been registered under the Securities Act of 1933, as amended, or the securities laws of any other jurisdiction. Unless they are registered, the Offered Bonds may be offered only in transactions that are exempt from registration under the Securities Act or the securities laws of any other jurisdiction. Accordingly, we are offering the Offered Bonds only to qualified institutional buyers under Rule 144A. For further details about eligible offerees and resale restrictions, please read "Notices to Investors."

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Offered Bonds or determined if this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

We have agreed to file a registration statement with the SEC with respect to an exchange offer for the Offered Bonds and, in certain circumstances, a shelf registration statement with respect to resales of the Offered Bonds.

Offered Bonds in the aggregate principal amount of \$400,000,000 will be ready for delivery in book-entry form through The Depository Trust Company on or about December 20, 2002, and the Delayed Delivery Bonds will be ready for delivery in the same form, subject to approval by the Illinois Commerce Commission, on or before January 31, 2003.

Joint Book-Running Managers

Merrill Lynch & Co.

Credit Suisse First Boston

The date of this offering memorandum is December 17, 2002.

TABLE OF CONTENTS

Notice to New Hampshire Residents	iii
Forward-Looking Statements	iii
SEC Review	v
Offering Memorandum Summary	1
The Offering	5
Risk Factors	8
Use of Proceeds	21
Capitalization	22
Selected Historical Financial Information	23
Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Business	43
Management	52
Certain Relationships and Related Transactions	54
Description of the Offered Bonds	56
Exchange Offer; Registration Rights	100
Certain United States Federal Tax Consequences	102
Notices to Investors	107
Plan of Distribution	111
Legal Opinions	112
Independent Accountants	113
Change in Accountants	113
Where You Can Find More Information	115

You should rely only on the information contained or incorporated by reference in this offering memorandum. We have not, and the initial purchasers have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the initial purchasers are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this offering memorandum or in any document incorporated by reference is accurate only as of the date hereof or thereof. Our business, financial condition, results of operations and prospects may have changed since that date.

The offer and sale of the Offered Bonds have not been registered under the Securities Act, and the Offered Bonds may not be offered or sold in the United States or to U.S. persons unless registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. We are relying on an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing the Offered Bonds, you will be deemed to have made the acknowledgments, representations, warranties and agreements described under the heading "Notices to Investors" in this offering memorandum. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time. The initial purchasers are relying on an exemption from registration provided by Rule 144A under the Securities Act in connection with the resale of the Offered Bonds only to qualified institutional buyers.

We have submitted this offering memorandum confidentially to a limited number of qualified institutional buyers so that they can consider a purchase of the Offered Bonds. We have not authorized its use for any other purpose. This offering memorandum may not be copied or reproduced in whole or in part. It may be distributed and its contents disclosed only to the prospective investors to whom it is provided. By accepting delivery of this offering memorandum, you agree to these restrictions. Please read "Notices to Investors."

This offering memorandum summarizes certain documents and other information, and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. In making an

investment decision, you must rely on your own examination of our company and the terms of this offering and the Offered Bonds, including the risks involved. Prospective investors are hereby offered the opportunity, prior to purchasing any Offered Bonds, to ask questions and receive answers concerning us and the terms of this offering and the Offered Bonds.

We are not making any representation to any purchaser of the Offered Bonds regarding the legality of an investment in the Offered Bonds by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this offering memorandum or in any document incorporated herein by reference to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the Offered Bonds.

We and the initial purchasers reserve the right to reject any offer to purchase any of the Offered Bonds, in whole or in part, or to sell less than the aggregate principal amount of Offered Bonds offered hereby or for which any prospective purchaser has subscribed. This offer can be withdrawn at any time before the closing of the offering and is specifically made subject to the terms described in this offering memorandum and in the purchase agreement between us and the initial purchasers.

The distribution of this offering memorandum and the offer, sale and delivery of the Offered Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this offering memorandum comes are required to inform themselves about and to observe any such restrictions. Please read "Notices to Investors" and "Plan of Distribution" for a description of certain restrictions on offers, sales and deliveries of the Offered Bonds and on distribution of this offering memorandum and any other offering materials. This offering memorandum does not constitute an offer to sell or the solicitation of an offer to buy the Offered Bonds in any jurisdiction in which such offer or solicitation is unlawful.

NOTICE TO NEW HAMPSHIRE RESIDENTS

Neither the fact that a registration statement or an application for a license has been filed under RSA 421-B with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the State of New Hampshire constitutes a finding by the Secretary of State of New Hampshire that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the Secretary of State of New Hampshire has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer or client any representation inconsistent with the provisions of this paragraph.

FORWARD-LOOKING STATEMENTS

This offering memorandum and the documents incorporated by reference in this offering memorandum include statements reflecting assumptions, expectations, projections, intentions or beliefs about future events. These statements are intended as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as "anticipate," "estimate," "project," "forecast," "may," "will," "should," "expect" and other words of similar meaning. In particular, these include, but are not limited to, statements relating to the following:

- projected operating or financial results;
- expectations regarding capital expenditures and other matters;

- beliefs about the financial impact of deregulation;
- assumptions regarding the outcomes of legal and administrative proceedings;
- estimations relating to the potential impact of new accounting standards;
- beliefs regarding the consummation of asset sales;
- - intentions with respect to future energy supplies; and
- anticipated costs associated with legal and regulatory compliance.

Any or all of our forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties, including the following:

- the timing and extent of changes in commodity prices for natural gas and electricity;
- the effects of deregulation in Illinois and nationally and the rules and regulations adopted in connection therewith;
- competition from alternate retail electric providers;
- general economic and capital market conditions, including overall economic growth, demand for power and natural gas, and interest rates;
- our substantial indebtedness and the ability of our operations to produce sufficient cash flows to service principal and interest on such indebtedness;
- the risk that the previously announced sale of our electric transmission system to Trans-Elect, Inc. may not close as a result of the regulatory, financing and other contingencies related to that transaction;
- our ability to negotiate a new bank credit facility on terms acceptable to us and our lenders;
- the effects of the issues currently facing Dynegy Inc., our indirect parent company, including its ability to successfully execute the remaining elements of its capital and liquidity strategy and to maintain adequate liquidity to satisfy its debt maturities and other obligations and the ultimate impact of the legal and administrative proceedings to which it is currently subject, including legal proceedings relating to its terminated merger with Enron Corp., financial restatements resulting from, and private and governmental claims based on, a structured natural gas transaction consummated in 2001 referred to as Project Alpha, Dynegy's trading practices and shareholder claims, and the ongoing re-audit of Dynegy's financial statements for the three-year period ended December 31, 2001;
- Dynegy's financial condition, including its ability to maintain its credit ratings and to continue to support payment to us of principal and interest on our \$2.3 billion intercompany note receivable;
- the risk that we suffer adverse consequences as the result of any significant downward adjustments in the carrying value of our \$2.3 billion intercompany note receivable;
- the cost of borrowing, access to capital markets and other factors affecting Dynegy's and our financing activities;
- operational factors affecting the ongoing commercial operations of our transmission, transportation and distribution facilities, including catastrophic weather-related damage, unscheduled repairs or workforce issues;
- the cost and other effects of legal and administrative proceedings, settlements, investigations or claims, including environmental liabilities that may not be covered by indemnity or insurance; and
- other regulatory or legislative developments that affect the energy industry in general and our operations in particular.

Many of these factors will be important in determining our actual future results. Consequently, no forward-looking statement can be guaranteed. Our actual future results may vary materially from those expressed or implied in any forward-looking statements.

All of our forward-looking statements, whether written or oral, are expressly qualified by these cautionary statements and any other cautionary statements that may accompany such forward-looking statements. In addition, we disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of this offering memorandum.

SEC REVIEW

We have agreed to exchange the Offered Bonds for publicly tradable Mortgage Bonds with terms identical in all material respects to the Offered Bonds. The SEC may conduct a review of our registration statement related to the exchange offer and, if necessary, any shelf registration statement we file to cover resales of the Offered Bonds. We may make changes to the description of our business and our financial information and other data included or incorporated by reference in this offering memorandum when preparing our registration statement, including such changes as may be required by the SEC, some of which could be significant. Consequently, the information in such registration statement or documents incorporated by reference in such registration statement may differ from the information included or incorporated by reference in this offering memorandum.

OFFERING MEMORANDUM SUMMARY

This offering memorandum summary highlights selected information from this offering memorandum and the documents incorporated herein by reference to help you understand our business and the terms of the Offered Bonds. Unless noted otherwise, this offering memorandum assumes that the Delayed Delivery Bonds will be issued. See "Description of the Offered Bonds—Dates of Issue; Escrow of Proceeds of Delayed Delivery Bonds." We urge you to read all of this offering memorandum and the documents incorporated herein by reference carefully to gain a fuller understanding of our business and the terms of the Offered Bonds, as well as some of the other considerations that may be important to you in making your investment decision. You should pay special attention to the "Risk Factors" section of this offering memorandum to determine whether an investment in the Offered Bonds is appropriate for you.

In this offering memorandum, "Illinois Power," "we," "us," and "our" refer to Illinois Power Company and its subsidiaries, except as otherwise indicated.

Our Company

General

We are a regulated public utility engaged in the transmission, distribution and sale of electric energy and the distribution, transportation and sale of natural gas in the State of Illinois. We provide retail electric and natural gas service to residential, commercial and industrial consumers in substantial portions of northern, central and southern Illinois. We currently supply electric transmission service to numerous utilities, municipalities and power marketing entities.

As of September 30, 2002, we supplied retail electric service to a market with an estimated population of approximately 1.4 million people, and we supplied retail natural gas service to a market with an estimated population of approximately 1.0 million people. As of January 3, 2002, based on billable meters, we served 588,765 active electric customers and 412,142 active natural gas customers. We hold franchises in all of the incorporated municipalities that we serve.

We own seven underground natural gas storage fields with total capacity of approximately 11.4 billion cubic feet and total deliverability on a peak day of approximately 314 million cubic feet. We also have contracts with various natural gas pipelines providing for 5.2 billion cubic feet of underground storage capacity, with total deliverability on a peak day of approximately 94 million cubic feet. Operation of underground storage permits us to increase deliverability to our customers during peak load periods by extracting natural gas that was previously placed in storage during off-peak months.

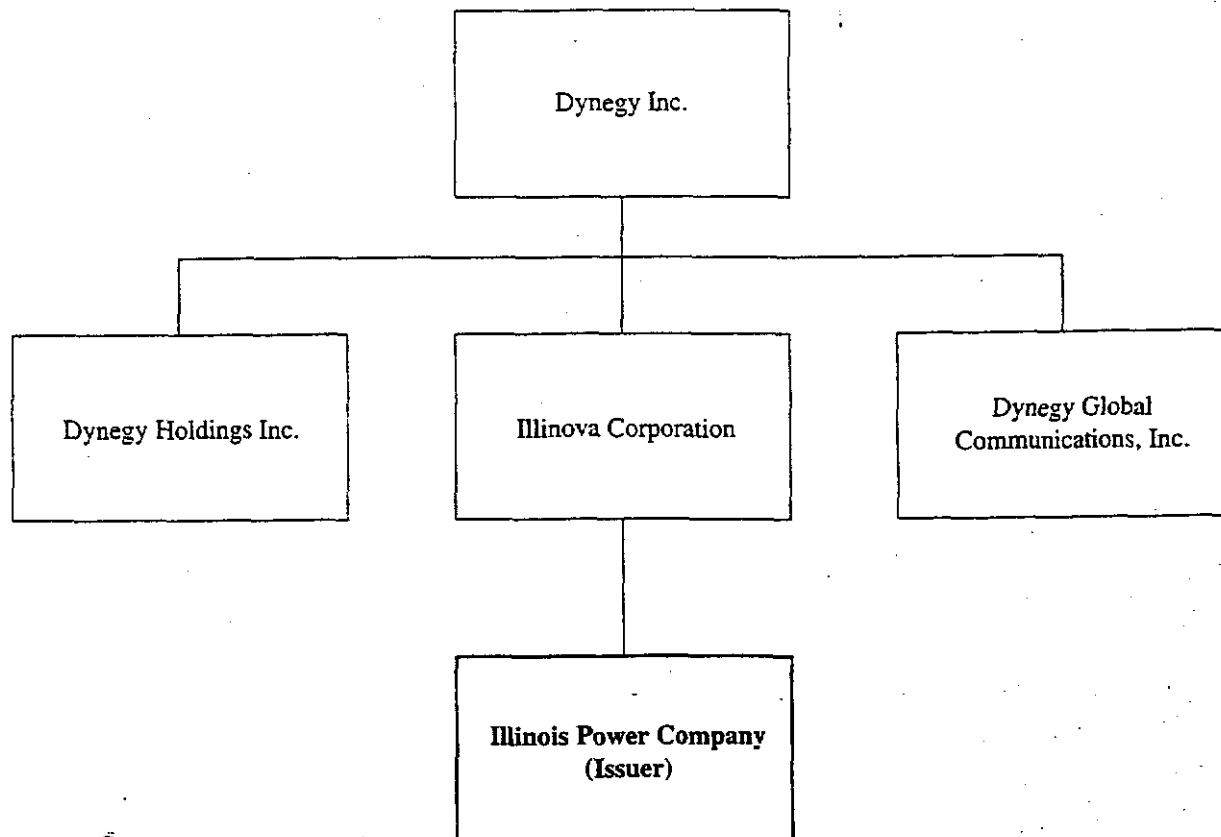
We currently own, but have contracted to sell, our electric transmission system of 1,687 circuit miles to Trans-Elect, Inc., an independent transmission company, for \$239 million (or approximately \$180 million of net proceeds after income tax and other transaction expenses). The sale is expected to close in the first half of 2003, subject to receipt of approvals from governmental and regulatory bodies and other closing conditions. Please read "— Recent Developments" below for a further discussion of the sale of our electric transmission system. We also own a distribution system that includes 37,708 circuit miles of overhead and underground lines. Additionally, we own 755 miles of natural gas transmission pipeline and 7,543 miles of natural gas distribution pipeline. All of our properties are located in the State of Illinois.

For the year ended December 31, 2001, we had total operating revenues of approximately \$1.6 billion, operating income of approximately \$166.5 million and EBITDA (as defined under "Selected Historical Financial

Information" below) of approximately \$537.3 million. Approximately 77% of our gross margin was attributable to our electric service and the remaining 23% was attributable to our retail natural gas service. For the nine months ended September 30, 2002, we had total operating revenues of approximately \$1.1 billion, operating income of approximately \$138.3 million and EBITDA of approximately \$416.9 million. The electric transmission system sale, if completed, is expected to reduce our annual operating income by approximately \$15.4 million and our annual EBITDA by approximately \$46.0 million. However, after giving effect to the expected reduction in capital expenditures otherwise required for the operation of these assets, we believe that the net cash flow effect of the sale on us will be minimal.

We were incorporated under the laws of the State of Illinois in 1923 and are headquartered in Decatur, Illinois. We are an electric utility company as defined in the Public Utility Holding Company Act of 1935 and are subject to regulation under the Illinois Public Utilities Act by the Illinois Commerce Commission, referred to as the "ICC." We are also subject to regulation under the Federal Power Act by the Federal Energy Regulatory Commission, referred to as the "FERC."

We are an indirect wholly owned subsidiary of Dynegy Inc. Dynegy is a holding company and conducts substantially all of its business through its subsidiaries. The following chart depicts a simplified version of Dynegy's corporate structure, including Dynegy's ownership of Illinois Power.



Our principal executive offices are located at 500 South 27th Street, Decatur, Illinois 62521, and our telephone number is (217) 424-6600.

Our Relationship with Dynegy

In February 2000, our direct parent company, Illinova Corporation, and its subsidiaries, including us, were acquired by Dynegy. Dynegy, our indirect parent company, produces and delivers energy, including natural gas liquids and coal, through its owned and contractually controlled network of physical assets. We rely on Dynegy and other of its affiliates for, among other things, providing funds to Illinova for payments under our \$2.3 billion intercompany note receivable from Illinova, a significant portion of our power and electric energy supply and certain of the administrative and general services related to our operations. Our intercompany note receivable constituted approximately 47% of our total assets as of September 30, 2002, and the interest income received on this note receivable, after adjustment for taxes, represented approximately 39% of our net cash provided by operating activities for the nine-month period ended September 30, 2002. We periodically review the collectibility of the asset represented by our intercompany note receivable from Illinova. Under present circumstances, we believe that a non-cash writedown of up to 10% of the \$2.3 billion principal amount of the note would be appropriate. Management will continue to assess the factors affecting this analysis through the remainder of the fourth quarter and the amount of the writedown ultimately recorded could be higher or lower than the current estimate based upon changes in Dynegy's circumstances. Please read the risk factor titled "We are particularly susceptible to developments at Dynegy because we rely on an unsecured note receivable from Illinova for a substantial portion of our net cash provided by operating activities" for further discussion of our intercompany note receivable.

Dynegy has recently experienced a number of events that have had a severely negative effect on its operating results, liquidity and public confidence in its ability to meet its debt and other obligations and its long-term business strategy, all of which are reflected in continued declines in the market price for Dynegy's debt and equity securities. These events include, among others, contraction in the energy trading markets, downgrades in Dynegy's credit ratings, increased collateralization requirements from counterparties, a weak commodity price environment for power, and various legal proceedings and investigations arising from a structured natural gas transaction consummated in 2001 referred to as Project Alpha, Dynegy's trading practices and its failed merger with Enron Corp. As a result of these and other events, Dynegy has announced that it will restructure its organization and exit third party risk management aspects of the marketing and trading business.

In addition, Dynegy has recently restated its 1999-2001 financial statements on an unaudited basis. These unaudited restatements relate to Project Alpha, a balance sheet reconciliation project relating principally to its natural gas marketing business, adjustments relating to a change in the accounting for certain contracts from hedge accounting to mark-to-market accounting and an overstatement of the valuation used in its 2000 acquisition of Extant, Inc. Dynegy has announced that its independent public accountant, PricewaterhouseCoopers LLP, is re-auditing its 1999-2001 financial statements and that, upon completion of this re-audit, additional restatements may be necessary, some of which could be material. PricewaterhouseCoopers LLP will not re-audit our financial results for these periods except to the extent necessary to support its re-audit of Dynegy's financial statements. We do not expect PricewaterhouseCoopers LLP's re-audit of Dynegy's financial statements to affect our financial statements for 1999 through 2001. We engaged PricewaterhouseCoopers LLP to replace Arthur Andersen LLP as our independent public accountant in March 2002. Please read the risk factor titled "Your ability to recover from our former auditors, Arthur Andersen LLP, for any potential financial misstatements is limited" for further discussion.

To learn more about Dynegy and its current financial condition, we encourage you to read Dynegy's quarterly report on Form 10-Q for the quarterly period ended September 30, 2002, its current report on Form 8-K filed concurrently therewith pursuant to which Dynegy filed its restated 1999-2001 financial statements on an unaudited basis, and its other filings with the SEC. To learn how to obtain additional information about Dynegy, including its quarterly report on Form 10-Q for the quarterly period ended September 30, 2002 and its current report on Form 8-K filed concurrently therewith, please read "Where You Can Find More Information." Please also read the sections titled "Risk Factors" and "Certain Relationships and Related Transactions" contained in this offering memorandum and "Note 4—Related Parties" to our consolidated financial statements for the year ended December 31, 2001 and for the quarter ended September 30, 2002 for a further discussion of our relationship with Dynegy.

Recent Developments

On October 9, 2002, we announced that we had agreed to sell our electric transmission assets to Trans-Elect, an independent transmission company, for \$239 million before income tax and other deductions. The net proceeds of this sale after income taxes and other transaction expenses are expected to be approximately \$180 million. The net book value of these assets is estimated to be approximately \$143 million at September 30, 2002. Facilities to be included are expected to be 1,687 circuit miles of 345,000-volt and 138,000-volt transmission lines, 20 transmission substations and the transmission assets within an additional 40 substations. We will retain our 37,708 circuit miles of overhead and underground lines and associated substations that comprise our electric distribution system throughout Central and Southern Illinois.

The transaction is expected to close in the first half of 2003, subject to required approvals from the SEC, the Federal Trade Commission, the ICC and the FERC, as well as other closing conditions. With respect to the FERC, the sale is conditioned on its approving the levelized rates application to be filed by Trans-Elect seeking a 13% return on equity (based on a capital structure of equal portions of debt and equity) which results in a significant increase in transmission rates over the rates we currently charge. If the FERC does not approve levelized rates in substantially the form and amount sought by Trans-Elect, then Trans-Elect will not be obligated to close on the sale pursuant to the parties' signed asset purchase agreement. As a result of our current credit ratings, the asset purchase agreement requires us to post a \$10 million letter of credit at closing in support of our obligations under the agreement.

The purchase price is subject to adjustment with respect to certain items, including final agreement as to the precise transmission assets to be sold, any variance in the assumed amount of inventory on hand and the amount of accounts payable at closing. A change in interest rates from those estimated by Trans-Elect in contemplating its financing for the sale also could cause an adjustment to the purchase price or postponement of the closing, at our option. These interest rates are dependent in part on our credit ratings because we will initially provide approximately 60% of Trans-Elect's revenues. In addition, if Trans-Elect is unable to complete the financing of the sale in whole or in part because of an adverse credit event affecting our ability to perform our obligations under the asset purchase agreement, Trans-Elect may terminate the agreement.

The pre-tax gain on the sale is estimated to be approximately \$90 million and will be recorded upon the closing of the transaction. In addition, as a result of the sale, we expect to accelerate approximately \$90 million of regulatory asset amortization. The sale, if approved, is expected to reduce our annual operating income by approximately \$15.4 million and our annual EBITDA by approximately \$46.0 million. However, after giving effect to the expected reduction in capital expenditures otherwise required for the operation of these assets, we believe that the net cash flow effect of the sale on us will be minimal.

Upon transfer of ownership of these transmission facilities, we will contract for use of such facilities on the same basis as other transmission customers. Trans-Elect will participate in a FERC-approved regional transmission organization, referred to as an "RTO," under the same conditions that would have applied to us. On December 16, 2002, Trans-Elect announced that it intends to file with the FERC for approval to join the Midwest Regional Transmission Organization, known as the MISO. If the FERC approves of Trans-Elect's joining the MISO, we would be required to post a letter of credit of up to approximately \$37 million at closing, depending on our credit ratings, to support our transmission payment obligations. In addition, we expect to file to join the MISO in the near future. Agreements between us and Trans-Elect will provide continued interconnection of the existing distribution and transmission systems and for joint use of shared facilities, such as existing substations and poles that support both transmission and distribution equipment. In addition, we will provide services to operate and maintain the transmission system sold to Trans-Elect for an initial period of five years.

We currently expect the sale to Trans-Elect to be completed in the first half of 2003, subject to the conditions and contingencies described above. If the sale is not completed, our current liquidity plan would be adversely affected. Please read the risk factor titled "Our significant leverage could have a material adverse effect on our financial condition and results of operations." If the sale is not completed, our transmission assets would remain eligible to serve as collateral for potential future financings under our Mortgage.

THE OFFERING

The following is a brief summary of some of the terms of this offering. For a more complete description of the terms of the Offered Bonds, please read "Description of the Offered Bonds" in this offering memorandum.

Issuer	Illinois Power Company.
Offered Bonds	<p>\$400 million aggregate principal amount of 11 1/2% Mortgage Bonds due 2010, referred to as the "Initial Delivery Bonds;" and</p> <p>\$150 million aggregate principal amount of 11 1/2% Mortgage Bonds due 2010, being offered on a delayed delivery basis subject to ICC approval.</p>
Maturity date	December 15, 2010.
Interest payment dates	June 15 and December 15, beginning June 15, 2003.
Security	The Offered Bonds will be secured by the lien on our properties used or to be used in the generation, transmission, distribution and sale of electricity and natural gas created by our General Mortgage Indenture and Deed of Trust dated as of November 1, 1992. Prior to this offering, there is currently an aggregate of approximately \$1.1 billion of Mortgage Bonds outstanding under the Mortgage.
Optional redemption	We will have the option to redeem the Offered Bonds, in whole or in part, at any time on or after December 15, 2006, at the redemption prices described under the heading "Description of the Offered Bonds—Optional Redemption." Prior to December 15, 2005, we may redeem up to 35% of the aggregate principal amount of the Offered Bonds with the net cash proceeds of qualified equity offerings or cash contributions to our common equity capital.
Change of control	If we experience certain specified changes of control, we must offer to repurchase the Offered Bonds at 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of repurchase. For further discussion, please see "Description of the Offered Bonds—Repurchase at the Option of Holders—Change of Control."
Certain triggering events	<p>The Offered Bonds contain triggering events relating to, among other things:</p> <ul style="list-style-type: none"> • the payment of dividends and other distributions with respect to our capital stock or the purchase, redemption or retirement of our capital stock; • our incurrence of additional indebtedness or issuance of additional preferred stock; • the use of proceeds from asset sales;

- transactions with affiliates;
- the incurrence of liens on assets to secure certain debt;
- engagement in sale and leaseback transactions;
- engagement in certain business activities; and
- engagement in certain mergers, consolidations or transfers of assets.

If any of these triggering events occurs, the holders of at least 25% in principal amount of the Offered Bonds will be able to require the redemption of the Offered Bonds at a redemption price equal to 100% of the aggregate principal amount of the Offered Bonds plus accrued and unpaid interest, if any, to the date of redemption. These triggering events are subject to various exceptions. Further, certain of these triggering events will be suspended if and so long as Moody's and Standard & Poor's assign the Offered Bonds an investment grade rating in the future and no event of default exists under the Mortgage. Please read "Description of the Offered Bonds—Triggering Events" and "—Suspended Triggering Events."

- Exchange offer; registration rights Under a registration rights agreement to be executed as part of this offering, we have agreed to:
- file a registration statement relating to an exchange offer that will enable holders of the Offered Bonds to exchange the Offered Bonds for publicly tradable Mortgage Bonds, referred to herein as Exchange Bonds, with terms identical in all material respects to the Offered Bonds;
 - use our commercially reasonable efforts to cause the registration statement to be declared effective;
 - use our commercially reasonable efforts to complete the exchange offer on or prior to 270 days after the issue date of the Offered Bonds;
 - file a shelf registration statement for the resale of the Offered Bonds if we cannot effect an exchange offer within the time period listed above and in other circumstances;
 - use our commercially reasonable efforts to cause the shelf registration statement, if required, to be declared effective; and
 - use our commercially reasonable efforts to keep the shelf registration statement, if required, effective until the earlier of two years from the date of effectiveness and the time when all of the Offered Bonds covered by the shelf registration statement have been sold, subject to certain exceptions.

We will pay additional interest on the Offered Bonds if we do not comply with certain of our obligations under the registration rights agreement. Please read "Exchange Offer; Registration Rights."

- Use of proceeds We estimate that the net proceeds from this offering, including the offering of the Delayed Delivery Bonds, will be approximately \$520 million, after deducting the initial purchasers' discount and estimated offering expenses. Pursuant to the ICC approval order related to the offering of the Initial Delivery Bonds and the ICC order to be requested with respect to the Delayed Delivery Bonds, we will be required to apply all of the net proceeds from the sale of the Offered Bonds to refinance or repay debt. Please read "Use of Proceeds" for further discussion.
- Transfer restrictions; absence of a public market for the Offered Bonds We have not registered the Offered Bonds under the Securities Act, and, therefore, the Offered Bonds are subject to restrictions on transferability and resale. The Offered Bonds are new securities, and there is currently no established market for the Offered Bonds. If issued, the Exchange Bonds generally will be freely transferable but will also be new securities for which there will not initially be a market. Accordingly, we cannot assure you as to the development or liquidity of any market for the Offered Bonds or the Exchange Bonds. We expect that the Offered Bonds will be eligible for trading in the PortalSM Market. The initial purchasers have advised us that they currently intend to make a market in the Offered Bonds and, if issued, the Exchange Bonds. However, they are not obligated to do so, and they may discontinue any market making with respect to the Offered Bonds or the Exchange Bonds without notice. We do not intend to apply for a listing of the Offered Bonds or, if issued, the Exchange Bonds, on any securities exchange or for the inclusion of the Offered Bonds or, if issued, the Exchange Bonds, on any automated dealer quotation system.
- Risk factors Please read "Risk Factors" and the other information included or incorporated by reference in this offering memorandum for a discussion of factors you should carefully consider before deciding to invest in the Offered Bonds.

RISK FACTORS

An investment in the Offered Bonds involves a significant degree of risk, including the risks described below. Before investing in the Offered Bonds, you should carefully consider the risks described below, in addition to other information contained or incorporated by reference in this offering memorandum. In addition, please read "Forward-Looking Statements," where we describe additional uncertainties associated with our business and the forward-looking statements contained or incorporated by reference in this offering memorandum.

Our significant leverage could have a material adverse effect on our financial condition and results of operations.

We have significant near-term debt maturities. As of December 1, 2002, our debt maturities through December 31, 2003 were as follows:

<u>Date</u>	<u>Type</u>	<u>Amount Outstanding/Owed</u>
Fourth Quarter 2002	Transitional Funding Trust Notes(1)	\$21.6 million
First Quarter 2003	Transitional Funding Trust Notes(1)	\$21.6 million
Second Quarter 2003	Bank Credit Facility(2)	\$300 million
	Transitional Funding Trust Notes(1)	\$21.6 million
Third Quarter 2003	Maturing Mortgage Bonds(3)	\$190 million
	Transitional Funding Trust Notes(1)	\$21.6 million
Fourth Quarter 2003	Transitional Funding Trust Notes(1)	\$21.6 million

- (1) Refers to transitional funding trust notes issued by a related special purpose trust, of which approximately \$540 million were outstanding at September 30, 2002. These notes were issued pursuant to the Illinois Electric Utility Transitional Funding Law and are to be repaid quarterly with cash set aside from customer billings. We expect that we will pay down these notes ratably from the cash we receive from customer billings through 2008.
- (2) On May 17, 2002, we borrowed the remaining \$60 million available under our 364-day \$300 million bank revolving credit facility and converted the facility to a one-year term loan pursuant to the terms of the facility.
- (3) Reflects \$190 million of the approximately \$1.1 billion in Mortgage Bonds outstanding at December 1, 2002.

In addition to the \$86.4 million of annual payments due on our Transitional Funding Trust Notes through 2008, we have a payment of up to \$81 million due on our Tilton lease financing in the third quarter of 2004. Pursuant to this financing, which is treated as an operating lease for accounting purposes and a capital lease for tax purposes, we lease, and then sublease to Dynegy Midwest Generation, Inc., another Dynegy subsidiary and which we refer to as "DMG," four gas turbines associated with a power plant located in Tilton, Illinois. At the expiration of the lease, we have an option to purchase the gas turbines. If we do not purchase the gas turbines, the turbines will be sold. We will be responsible for any shortfall if the sale proceeds are less than \$81 million, up to our minimum residual value guarantee on the lease of 86% of the \$81 million payment due, or \$69.6 million.

In addition to our existing debt maturities, we have the ability to issue a significant amount of additional indebtedness, subject to market conditions, ICC approval and the provisions of the Mortgage and the Supplemental Indenture which govern the Offered Bonds. Additional Mortgage Bonds may be issued under

the Mortgage on the basis of (i) 75% of net utility property additions and (ii) the principal amount of retired Mortgage Bonds. As of September 30, 2002, we had the capacity to issue approximately \$97.4 million of additional debt under the Mortgage.

We also could cause the issuance by a related special purpose trust, subject to ICC approval, the terms of the Offered Bonds and certain other conditions, of up to \$86.4 million in additional Transitional Funding Trust Notes pursuant to the Illinois Electric Utility Transitional Funding Law. There were approximately \$540 million in Transitional Funding Trust Notes outstanding at September 30, 2002, the principal and interest of which is to be repaid quarterly with cash set aside from customer billings. As a result of our consolidation of the related special purpose trust, the cash set aside from these customer billings is included in revenues on our consolidated statement of income and the Transitional Funding Trust Notes are accounted for as long-term debt on our consolidated balance sheet. However, the cash set aside from these customer billings is owned by the special purpose trust that issued the Transitional Funding Trust Notes and is dedicated solely to the debt service obligations on the Transitional Funding Trust Notes and is not otherwise available to service our other debt obligations, including the Offered Bonds.

Due to our non-investment grade credit ratings and other factors, including our relationship with Dynegy, we do not have access to the commercial paper markets, and our access to the capital markets is limited. These factors, along with the level of our indebtedness and the fact that we do not currently have a revolving credit facility, will have several important effects on our future operations. First, a significant portion of our operating cash flows will be dedicated to the payment of principal and interest on our indebtedness, including the Transitional Funding Trust Notes, and will not be available for other purposes. Further, our ability to obtain additional financing for working capital, capital expenditures, acquisitions, general corporate and other purposes is limited. Given these facts, we expect to continue to rely primarily on cash from operations, cash on hand, cash from asset sales and interest income under our intercompany note receivable to meet our near-term obligations. As of December 5, 2002, we had unrestricted cash of approximately \$27 million.

Our plan to improve our liquidity in order to meet our near-term debt maturities and provide for ongoing operations and necessary capital expenditures includes:

- completion of this offering;
- completion of the pending sale of our electric transmission system to Trans-Elect; and
- the negotiation of a new bank credit facility on terms acceptable to us and our lenders to replace all or a portion of the facility that matures in May 2003.

Our ability to satisfy our debt obligations as they come due will depend upon our successful execution of these initiatives, which in turn is subject to a number of risks including factors beyond our control. These factors include, among others, the timeliness and ability to obtain regulatory approvals, our ability to complete this offering and the continued negative effects of our relationship with Dynegy. If we are unable to successfully execute these initiatives, we would require additional liquidity support from Dynegy, to the extent available and subject to receipt of any required regulatory approvals, in order to satisfy our debt maturities and other obligations as they come due. Please read "—Our relationship with Dynegy and its financial condition subjects us to potential risks that are beyond our control" for a discussion of the challenges facing Dynegy and its potential inability to provide us with any such support. Please also read "A bankruptcy filing by Dynegy could lead to our own bankruptcy filing and would materially adversely affect our ability to make payments on the Offered Bonds."

Our sources of cash may be insufficient to satisfy our ongoing liquidity requirements.

Because we have no revolving credit facility, no other commercial credit capacity and no access to the commercial paper markets, we are dependent on cash on hand, cash from asset sales and other capital-raising

activities and cash flows from operations (including interest payments on our intercompany note receivable from Illinova) to satisfy our near-term obligations. For the nine months ended September 30, 2002, our cash flows from operations were \$218.6 million, approximately \$85.6 million of which, after adjustment for taxes, were generated by interest payments on our intercompany note receivable from Illinova. For a discussion of the risks associated with our continuing receipt of interest income on the intercompany note, please read "We are particularly susceptible to developments at Dynegy because we rely on an unsecured note receivable from Illinova for a substantial portion of our net cash provided by operating activities." The balance of our cash flows from operations was approximately \$133.0 million. For the same period, our capital expenditure requirements were approximately \$101.8 million and our long-term debt requirements were approximately \$160.5 million. These obligations exceeded cash flows from operations (inclusive of interest on our intercompany note) for the nine months ended September 30, 2002 by approximately \$43.7 million, and this deficit will increase significantly in the event we do not receive interest payments on our intercompany note receivable. Our future cash flows from operations may be less than those presented for the nine months ended September 30, 2002, further increasing this deficit.

Because our operating cash flows are insufficient for us to satisfy our debt and other obligations as they become due, we will be required to obtain additional financing or refinance our indebtedness. Any failure to receive interest payments on our intercompany note receivable would significantly adversely impact our ability to obtain any such additional financing. As a result, we may not be able to obtain additional financing or refinance our existing indebtedness on commercially reasonable terms, if at all. Please read "Our business is subject to extensive regulation, the effects of which could negatively impact our ability to satisfy our obligations, including the Offered Bonds" and "—A bankruptcy filing by Dynegy could lead to our own bankruptcy filing and would materially adversely affect our ability to make payments on the Offered Bonds."

Our business is subject to extensive regulation, the effects of which could negatively impact our ability to satisfy our obligations, including the Offered Bonds.

Our electricity operations are regulated by the FERC under the Federal Power Act as to transmission rates, terms and conditions of service, the acquisition and disposition of certain transmission facilities and other matters. We are further regulated by the State of Illinois through the Illinois Public Utilities Act and the ICC. The ICC regulates the rates at which we can sell and distribute electricity and natural gas to retail customers. On June 6, 2002, Illinois Governor George Ryan signed a bill that extends Illinois' current retail electric rate freeze through 2006. Beginning in 2007, absent further extension of the retail electric rate freeze or other action, we expect that the distribution and transmission component of retail electric rates will continue to be required to be based on costs while the power and energy component may be required to be based on costs or prices in the wholesale market. We cannot predict the structure under which retail rates will be set after 2006 or the impact of any such rate structure on our business.

The Illinois state legislature deregulated the Illinois retail power market through the Electric Utility Customer Choice and Rate Relief Law of 1997, commonly referred to as the Customer Choice Law, enacted in December 1997. The Customer Choice Law gave our residential electricity customers a 15% decrease in base electric rates beginning August 1, 1998 and an additional five percent decrease in base electric rates beginning May 1, 2002. The combined impact of these rate decreases is expected to result in a total annual revenue reduction of approximately \$91 million in 2002, \$101 million in 2003, \$103 million in 2004, \$105 million in 2005 and \$107 million in 2006, relative to rate levels in effect prior to August 1, 1998. The Customer Choice Law also implements a utility return on equity collar relating to the mandatory transition period now ending December 31, 2006. During this period, we may request an increase in our base electric rates if the two-year average of our earned return on equity is below the two-year average of the monthly average yields of the 30-year U.S. Treasury Bond through January 2002, an average of the 30-year U.S. Treasury Bonds and the monthly Treasury Long-Term Average Rates in February 2002, and the monthly Treasury Long-Term Average Rates (25 years and above) after February 2002, for the concurrent period. The ICC would rule on such a request for a rate increase. Conversely, through 2006, we are required to refund to our customers 50% of the amount earned above a defined ceiling limit. This ceiling limit is exceeded if the two-year average of our return on equity exceeds the two-year average of the monthly average yields of 30-year U.S. Treasury Bonds through January 2002, an

average of the 30-year U.S. Treasury Bonds and the Monthly Treasury Long-Term Average Rates in February 2002 and the Monthly Treasury Long-Term Average Rates (25 years and above) after February 2002, for the concurrent period plus 6.5%. This 6.5% may be increased to 8.5% upon election by us to waive our right to request authority to collect transition charges in 2007 and 2008 from customers choosing direct access. Regulatory asset amortization is included in the calculation of return on equity for the ceiling test but is not included in the calculation of return on equity for the floor test. During 2001, our two-year average return on equity was within the allowable return on equity collar, resulting in no rate increase requests or customer refunds, and is expected to be within the return on equity collar in 2002.

As of May 1, 2002, the Customer Choice Law further permits all Illinois electricity consumers to choose their own electricity providers. The rate freeze described above does not apply to rates for electric distribution service to customers who choose direct access. These rates are currently required to be based on costs and can be raised or lowered by the ICC as the result of a rate proceeding. However, customers choosing direct access may be required to pay transition charges based on the utility's lost revenues from such customers. Under the Customer Choice Law, we are obligated to provide electric supply service to all of our customers who request it, unless such service is deemed competitive by the ICC.

Although no parties have requested certification from the ICC to provide residential electric power service pursuant to the Customer Choice Law, this could change. Additionally, there are several registered energy providers for non-residential service. Customer choice has resulted in lower electric service revenues from our commercial and industrial customers. These factors and others will influence the extent to which customer choice affects our operating results. We currently estimate that by the end of 2003 commercial and industrial customers representing approximately 15% of our total megawatt hours sold will have switched to other electric service providers. In addition, we have also lost revenues as a result of some commercial and industrial customers electing to pay for power supplied by us at market-based prices, rather than under bundled tariffs. This power purchase option is only available to commercial and industrial customers that would be required to pay transition charges and is generally not available to customers with non-standard tariff agreements until such agreements expire. We have a significant number of such agreements that expire in the third and fourth quarters of 2003. A significant number of customers under these agreements could elect the power purchase option in connection with any such renewals or choose a third party provider, which could further reduce our revenues.

Lower future revenues due to customers choosing other electric service providers or the power purchase option could affect our ability to satisfy our debt service and other obligations as they become due. In addition, in order to adapt to the increasingly competitive environment in which we operate, we expect to continue to evaluate and consider a wide array of potential business strategies. These strategies may include business combinations, acquisitions or dispositions as well as internal restructurings or reorganizations involving any of our businesses or properties, including our distribution assets or our technology and infrastructure assets. As discussed above under "Our Company—Recent Developments," we have agreed to sell our electric transmission system to Trans-Elect. Further pursuit of any of these strategies may significantly affect our business operations and financial condition.

Our relationship with Dynegy and its financial condition subjects us to potential risks that are beyond our control.

General. As described in the chart appearing under the heading "Our Company—General," we are indirectly owned by Dynegy. Dynegy has recently experienced a number of events that have had a severely negative effect on its operating results, liquidity and public confidence in its ability to meet its debt and other obligations and its long-term business strategy, all of which are reflected in continuous declines in the market price of Dynegy's debt and equity securities. These events include, among others, contraction in the energy trading markets, downgrades in Dynegy's credit ratings, increased collateralization requirements from counterparties, a weak commodity price environment for power, and various legal proceedings and investigations arising from Project Alpha, Dynegy's trading practices and its failed merger with Enron Corp. Also weighing on

public confidence is Dynegy's previous announcement that PricewaterhouseCoopers LLP would re-audit Dynegy's 1999-2001 financial statements as part of its previously announced restatement process.

Due to our relationship with Dynegy, adverse developments and announcements concerning Dynegy have affected and will continue to affect our ability to access the capital markets and to otherwise conduct our business. For example, in July 2002 we priced a public offering of \$325 million of Mortgage Bonds. In late July, following announcement by Dynegy of a \$500 million second quarter charge and lowered operating cash flow guidance (from up to \$1 billion to a range of \$600 million to \$700 million), all three major credit rating agencies further downgraded the credit ratings of Dynegy and its subsidiaries, including us. These actions caused the termination of our \$325 million Mortgage Bond offering. Additionally, the resulting declines in our credit ratings have caused increased collateralization requirements on the part of our gas suppliers. Because we currently have no borrowing capacity under our bank credit facility and few cash resources, Dynegy has been required to post letters of credit of approximately \$25 million to support these collateral requirements.

Dynegy has significant consolidated debt maturities through December 31, 2003. These consolidated maturities, including our maturities as set forth in the table on page 8 above, are approximately as follows: fourth quarter 2002—\$73 million; first quarter 2003—\$258 million; second quarter 2003—\$1,532 million; third quarter 2003—\$252 million; and fourth quarter 2003—\$62 million. In addition, Dynegy has \$1,500 million in Series B Mandatorily Convertible Redeemable Preferred Stock held by ChevronTexaco Corporation with a mandatory redemption date in November 2003. In its third quarter 2002 Form 10-Q, Dynegy provided updated information regarding its liquidity position and its strategy to address its significant debt maturities in 2003 and other financial obligations. Specifically, Dynegy stated that it believes its current liquidity position should be sufficient to permit it to meet its debt maturities and other obligations through the first quarter 2003. However, Dynegy stated that the sufficiency of its liquidity will depend upon:

- Dynegy's continued compliance with the covenants in its bank credit and other debt instruments or its ability to negotiate waivers in the event of a covenant default;
- Dynegy's ability to repay or refinance its credit facilities that mature in the second quarter 2003;
- Dynegy's ability to manage its exit from third party risk management aspects of the marketing and trading business and the timing of the expected cash flows and reduction in collateral from this exit;
- the level of earnings and cash flow from Dynegy's assets and businesses, which is subject to the effect of changes in commodity prices, particularly natural gas and power, and the capital requirements associated with the operation of these assets and businesses;
- Dynegy's non-investment grade credit ratings, the effect of these ratings on Dynegy's ability to access capital markets and to conduct normal commercial operations and the effect of any further downgrade in these credit ratings on refinancings;
- ongoing investigations and litigation relating to the Project Alpha structured natural gas transaction, Dynegy's trading practices and its activities in the California power markets;
- public confidence in Dynegy's financial reporting in light of the previously announced restatements and the ongoing re-audit of its 1999-2001 financial statements; and
- Dynegy's ability to eliminate or further reduce net cash outflows associated with its telecommunications business.

Dynegy indicated that its liquidity may be significantly adversely affected if it is unable to refinance its credit facilities, all of which mature in the second quarter of 2003. Dynegy's primary financing subsidiary, Dynegy Holdings, is party to two of these credit facilities. It is likely that any new Dynegy Holdings credit facilities will contain restrictive covenants affecting Dynegy Holdings' ability to, among other things, distribute cash up to Dynegy. Because Dynegy is a holding company that conducts substantially all of its business operations through its subsidiaries, including Dynegy Holdings, any such restrictions would substantially

decrease the amount of cash available to Dynegy for providing us with interest payments under the intercompany note receivable or additional liquidity support as required.

Dynegy also faces the risk of a covenant default on its credit facilities or other debt instruments prior to their maturity. These credit facilities and Dynegy's telecommunications lease financing contain various covenants, including EBITDA-to-interest and debt-to-capitalization financial covenants. Dynegy stated that it was in compliance with the covenants in its credit facilities and other debt instruments at September 30, 2002. While many of the charges incurred by Dynegy during 2002 are excluded from the compliance calculations, continued weakness in Dynegy's operating results compared with results in 2001 will make it more difficult for Dynegy to continue to comply with certain of its financial covenants. Compliance with these financial covenants is measured on a quarterly basis.

Any failure to satisfy one or more of these financial covenants would constitute a breach giving rise to a default under the applicable debt instrument and would permit the lenders under such debt instrument to accelerate the maturity of Dynegy's outstanding obligations thereunder. Depending upon the particular debt instrument, such a breach or any action by the lenders to accelerate the maturity of amounts owing would result in a default under or trigger cross-acceleration provisions in a significant portion of Dynegy's other outstanding debt instruments. In the event of non-compliance, Dynegy would seek waivers from the lenders under these debt instruments or attempt to repay or refinance the affected debt instruments. Dynegy has stated that it cannot provide any assurance that it could repay, obtain waivers with respect to or refinance such debt instruments in the event of any such default.

Dynegy faces significant risks related to its ongoing operations and other matters discussed above, including the risk that it may not be able to reach agreement with its lenders to repay or refinance its credit facilities or to resolve any covenant defaults on mutually acceptable terms. Dynegy has stated that if it fails to execute the remaining elements of its liquidity strategy, it may be forced to consider other strategic alternatives including a possible reorganization under the protection of federal bankruptcy laws. Please read "A bankruptcy filing by Dynegy could lead to our own bankruptcy filing and would materially adversely affect our ability to make payments on the Offered Bonds" herein for further discussion of the effects any such filing could have on us.

Credit Ratings Actions. The challenges faced by Dynegy over the past several months have resulted in numerous credit rating downgrades of Dynegy and its subsidiaries, including us, by the three major credit rating agencies. The ratings on the senior unsecured debt issued by Dynegy Holdings, Dynegy's primary financing subsidiary, are all well below investment grade and remain on negative watch for further downgrades by all three major credit rating agencies. Most recently, on November 26 and December 9, 2002, Standard & Poor's and Moody's, respectively, lowered their credit ratings for Dynegy and its subsidiaries, including us and our Mortgage Bonds. In taking their ratings actions, these agencies cited concerns over, among other things, the level of cash flows that the restructured Dynegy will be able to generate relative to its significant financial leverage, its ability to address its debt obligations coming due over the next several years and uncertainties surrounding ongoing investigations and litigation and the re-audit of Dynegy's 1999-2001 financial statements. As of the date of this offering memorandum, the senior unsecured debt ratings for Dynegy Holdings were CCC+, Caa2 and B by Standard & Poor's, Moody's and Fitch, respectively. Similarly, the ratings on our Mortgage Bonds have been downgraded to below investment grade by all three major credit rating agencies and remain on negative watch for further downgrades by all three major credit ratings agencies. As of the date of this offering memorandum, the ratings on our Mortgage Bonds were B, B3 and BB- by Standard & Poor's, Moody's and Fitch, respectively.

A further downgrade of the outstanding indebtedness of Dynegy Holdings could result in a similar downgrade of our indebtedness, including the Offered Bonds. Our non-investment grade status precludes our use of Form S-3 under the Securities Act, limits our ability to refinance our debt obligations as they become due and adversely affects our access to the capital markets. Our non-investment grade status also will likely increase the borrowing costs incurred in connection with any such actions. Our financial flexibility will likewise be reduced as a result of, among other things, restrictive covenants and other terms typically imposed on non-investment

grade borrowers. In addition, it is currently anticipated that the terms of our refinanced or new credit facility will be more stringent than the terms contained in our existing facility, and that such facility may be secured by Mortgage Bonds or an interest in our assets which is equal in right of payment with the Offered Bonds. In addition, we have been requested to provide letters of credit or other credit security to support certain business transactions, including some of our purchases of natural gas and natural gas transportation. Because of the effect of Dynegy's credit ratings on our credit ratings, we cannot guarantee that our current credit ratings will be maintained or that the negative effects of our non-investment grade status will be reduced.

Restatements. Dynegy has recently restated its financial statements on an unaudited basis to reflect adjustments relating to a structured natural gas transaction referred to as Project Alpha, a balance sheet reconciliation project relating primarily to its natural gas marketing business, a change in the accounting for certain contracts from hedge accounting to mark-to-market accounting and an overstatement in the valuation used in its 2000 acquisition of Extant, Inc. For a more complete description of these adjustments, please read "Introductory Note—Restatements and Absence of Report of Independent Public Accountants" to the unaudited consolidated financial statements attached to Dynegy's current report on Form 8-K filed November 14, 2002 and "Note 1—Restatements" to the unaudited consolidated financial statements included in Dynegy's quarterly report on Form 10-Q for the quarter ended September 30, 2002.

While Dynegy's restated financial statements reflect all known adjustments that, in the opinion of Dynegy's management, are necessary for a fair presentation of Dynegy's financial statements for the periods presented, such restated financial statements remain unaudited. Dynegy's independent public accountant, PricewaterhouseCoopers LLP, is currently re-auditing Dynegy's historical financial statements for each of the years in the three-year period ended December 31, 2001, which were previously audited by Arthur Andersen LLP, Dynegy's former independent public accountant. Arthur Andersen has advised Dynegy that its audit opinion relating to Dynegy's financial statements for the year ended December 31, 2001 should no longer be relied upon and such audit opinion was withdrawn. As a result of this three-year re-audit process, it is possible that additional adjustments to these financial statements may result, some of which could be material. Dynegy expects that the re-audit of its 1999 through 2001 consolidated financial statements will be completed early in the first quarter 2003. Our ability to access the capital markets has been adversely affected by negative sentiment surrounding Dynegy's restatement and re-audit process. If any further restatements are required as a result of the re-audit process, our ability to access the capital markets could be further reduced.

Investigations and Lawsuits. Dynegy has been named in numerous class action lawsuits alleging violations of federal securities laws and relating to its terminated merger with Enron Corp. Dynegy is also under investigation by, among others, the California Attorney General, the FERC, U.S. Attorneys in Texas and California and the Commodity Futures Trading Commission, or CFTC, primarily with regard to its trading activities and, with respect to the U.S. Attorneys, the Project Alpha structured natural gas transaction, round trip trades, reporting of trading information to trade publications, and marketing activities in California. Dynegy is currently in discussions with the CFTC regarding settlement of the CFTC's investigation into the price reporting practices of certain of its subsidiaries. Dynegy expects that any such settlement would include allegations by the CFTC that these subsidiaries violated various sections of the Commodity Exchange Act and CFTC regulations regarding the reporting of false market information, the attempted manipulation of market prices and the failure to retain certain records. Dynegy also has a netting agreement with Enron, the enforcement of which Enron is currently challenging in its bankruptcy proceedings. If Enron is successful in such challenge, Dynegy would be required to pay approximately \$220 million to Enron. An adverse result in one or more of these investigations and lawsuits could adversely affect Dynegy's and our financial condition and results of operations. For a more detailed discussion of the investigations and litigation facing Dynegy, please read "Note 12—Commitments and Contingencies" to Dynegy's quarterly report on Form 10-Q for the quarter ended September 30, 2002.

Dividends. There are restrictions on our ability to pay cash dividends, including any dividends that we might pay indirectly to Dynegy. Under our restated articles of incorporation, we may pay dividends on our common stock, all of which is owned by Illinova, subject to the preferential rights of the holders of our preferred

stock, of which Illinova owns approximately 73%. We also are limited in our ability to pay dividends by the Illinois Public Utilities Act and the Federal Power Act, which require retained earnings equal to or greater than the amount of any proposed dividend. At September 30, 2002, we had retained earnings of approximately \$368 million. Additionally, the ICC's October 23, 2002 order relating to a netting agreement between us and Dynegy referred to on page 16 below prohibits us from declaring and paying any dividends on our common stock until such time as our Mortgage Bonds are rated investment grade by both Moody's and Standard & Poor's and requires that we first obtain approval for such payment from the ICC.

The ICC's October 2002 order authorized us to provide funds to Illinova to enable it to make interest payments due in February and August 2003 and February 2004 on its senior notes, but only if and only to the extent that Illinova is unable to obtain the necessary funds from Dynegy or another source. The amount of each of these three scheduled interest payments is about \$3.6 million. With respect to the February 2003 interest payment on Illinova's senior notes, the ICC order authorizes us to advance funds directly to The Depository Trust Company, referred to as "DTC," for the account of Illinova, for the payment of interest on its senior notes. Illinova is to repay us within 30 days with interest at the annual rate of 7.5%. If Illinova fails to repay us within 30 days, we may rely on the netting agreement to offset this unpaid amount against other amounts we owe to Dynegy. With respect to the August 2003 and February 2004 interest payments, the ICC order authorizes us to provide funds to Illinova by repurchasing shares of our 7.75% series \$50 par value preferred stock, which is callable by us in whole or in part at any time after July 1, 2002. Illinova holds approximately 95% of the shares of our 7.75% series preferred stock. The payment of any such amounts would reduce the amounts available to us for general corporate purposes or to satisfy our debt service or other obligations as they become due, including making payments on the Offered Bonds.

We are particularly susceptible to developments at Dynegy because we rely on an unsecured note receivable from Illinova for a substantial portion of our net cash provided by operating activities.

Effective October 1, 1999, we transferred our wholly owned fossil generating assets and certain other assets and liabilities to Illinova in exchange for an unsecured note receivable of approximately \$2.8 billion. All of these assets were subsequently contributed to Illinova Power Marketing Inc., an Illinova subsidiary. Following the Dynegy-Illinova merger, Illinova Power Marketing was renamed Dynegy Midwest Generation and sold to Dynegy Inc. As consideration for this sale of our fossil generating assets, an intercompany note receivable was created between Dynegy and Illinova on substantially similar terms as the note receivable between Illinova and us. Dynegy subsequently contributed DMG to Dynegy Holdings Inc.

Our intercompany note receivable from Illinova matures on September 30, 2009 and bears interest at an annual rate of 7.5%, payable semi-annually in April and October. At September 30, 2002, the principal outstanding under this note receivable, as well as the carrying value of this note receivable on our consolidated balance sheet, was approximately \$2.3 billion. During 2001, we recognized approximately \$170 million in pre-tax interest income from this note receivable, which represented, on an after-tax basis, approximately two-thirds of our total net income for the same period. This note receivable represented approximately 47% of our total assets as of September 30, 2002, and the interest income received on this note receivable, after adjustment for taxes, represented approximately 39% of our net cash provided by operating activities for the nine-month period ended September 30, 2002. All interest payments on this note receivable have been made on or before their due date. Additionally, in July 2002, Illinova pre-paid approximately \$85 million of the interest otherwise due in October 2002 under this intercompany note receivable. In each of September and November 2002, Illinova prepaid interest of approximately \$14 million for the months of October and November 2002, which interest was otherwise due in April 2003.

As noted above, Dynegy faces many issues regarding its creditworthiness as well as a number of other legal and accounting issues. In the event that any of these issues cause Dynegy to default in the payment of principal or interest on its note receivable with Illinova such that Illinova is unable to perform under its intercompany note receivable with us, our financial condition, results of operations and our ability to satisfy our

commitments and obligations, including principal and interest on the Offered Bonds, would be materially adversely affected. We periodically review the collectibility of the asset represented by the intercompany note receivable from Illinova. As a result of the continuing uncertainty of the financial and liquidity situation of Dynegy and following the recent deterioration in Dynegy's credit ratings, we have reassessed under FAS 114 the realizable value of the intercompany note receivable as of the date of this offering memorandum. Management performed an analysis to measure impairment based on the expected future cash flows discounted at the intercompany note receivable's effective interest rate of 7.5% in accordance with FAS 114. This interest rate does not incorporate the borrower's current credit risk profile and, consequently, the resulting carrying amount of the note receivable will not represent market value. This analysis was based on the probability weighting of multiple cash flow scenarios, including principal and interest payments based on the contractual terms and bankruptcy (both liquidation and reorganization). Under present circumstances, we believe that a non-cash writedown of up to 10% of the \$2.3 billion principal amount of the intercompany note would be appropriate. Measuring any potential impairment requires judgment and estimates and the eventual outcomes may differ from those estimates. Management will continue to assess the factors affecting this analysis through the remainder of the fourth quarter and the amount of the writedown ultimately recorded could be higher or lower than the current estimate based upon changes in Dynegy's circumstances. The final determination regarding the amount and need for a writedown will not be made until our audited financial statements are published for the year ended December 31, 2002. This non-cash adjustment will not have any effect on Illinova's obligations to continue to service the intercompany note in accordance with its terms. We do not believe that the writedown as currently estimated would result in an obligation to make refunds to our retail electric customers under the applicable Illinois return on equity ceiling test or upon our ability to continue to comply with the financial covenants in our \$300 million term loan or the Tilton lease financing. Also, the writedown would not affect the financial statements of our parent company because of the intercompany nature of the obligation.

If Illinova fails to make timely payment to us of interest due on the intercompany note, or, even if Illinova continues to make timely payment to us of such interest, if further declines occur in Dynegy's liquidity position or the market value of its assets relative to its consolidated indebtedness, we could be required to further reduce the carrying value of the intercompany note on our consolidated balance sheet. A larger downward adjustment could, among other things, cause a sufficient increase in our return on equity so as to require customer refunds pursuant to the Customer Choice Law. We currently estimate that a write off of the entire intercompany note receivable would result in an approximate \$14 million refund for 2005 payable in 2006 and an approximate \$35 million refund for 2006 payable in 2007. However, the amount of any required refunds could be materially higher than these estimates based on our actual future operating and financial results, particularly if we were to receive interest payments on the intercompany note subsequent to a write off of the entire intercompany note. A larger adjustment also could result in the acceleration of our obligations under our \$300 million term loan and our Tilton lease financing and limit our ability to incur additional indebtedness in the future. Please read the risk factor titled "Our sources of cash may be insufficient to satisfy our ongoing liquidity requirements" for further discussion.

On October 23, 2002, the ICC issued an order granting our petition for approval of a netting agreement among us, Dynegy, Illinova and several other Dynegy subsidiaries. Under the netting agreement, we can discharge and satisfy payments due to the other parties to the netting agreement under a services and facilities agreement, or for natural gas and transportation services, by offsetting and netting such payments due against interest due us, but unpaid, under our intercompany note with Illinova, or amounts billed by us to, or owed to us by, the other parties under certain other agreements. Similarly, Illinova would be entitled to discharge and satisfy semiannual interest payments due to us under the intercompany note, and for other services, by offsetting and netting such payments due us against amounts billed to us but unpaid under the services and facilities agreement, which includes tax sharing provisions between us and Dynegy, or for natural gas and transportation services. For the nine months ended September 30, 2002, we made approximately \$37.5 million of general and administrative payments and approximately \$97.9 million of tax payments to Dynegy pursuant to the services and facilities agreement. As a result of the corporate restructuring effected by Dynegy in October 2002, we expect that our general and administrative payments pursuant to the services and facilities agreement will be less in the future

than during the nine months ended September 30, 2002. However, there can be no assurance of any such reduction.

The netting agreement does not, however, give us a right to offset our payments owed under the power purchase agreement with DYC described below against the payments due us from Dynegy or its affiliates. Additionally, we may not pay any common dividend to Dynegy or its affiliates until our Mortgage Bonds are rated investment grade by Moody's and Standard & Poor's and specific approval for such payment is obtained from the ICC. The ICC also granted our request, subject to certain conditions, to advance funds to service interest on Illinois's senior notes in February 2003 if Dynegy is not able to make such payments and to repurchase our preferred stock held by Illinois in order to provide funds to pay interest on Illinois's senior notes due in August 2003 and February 2004 if Dynegy is unable to make such payments. The amount of each of these three scheduled interest payments is approximately \$3.6 million. In the event of a bankruptcy filing by Dynegy, this netting agreement may not be enforced by us without bankruptcy court approval. Please read the risk factor titled "A bankruptcy filing by Dynegy could lead to our own bankruptcy filing and would materially adversely affect our ability to make payments on the Offered Bonds" for a discussion of our ability to net payments under the netting agreement in the event of a bankruptcy filing by Dynegy.

A bankruptcy filing by Dynegy could lead to our own bankruptcy filing and would materially adversely affect our ability to make payments on the Offered Bonds.

As described above, Dynegy has stated that if it fails to execute the remaining elements of its capital and liquidity strategy, it may be forced to consider other strategic alternatives including a possible reorganization under the protection of federal bankruptcy laws. If Dynegy were to file for bankruptcy protection, interest under Illinois's intercompany note receivable with Dynegy would cease to accrue. If Illinois were included in a Dynegy bankruptcy, interest under our intercompany note receivable with Illinois would similarly cease to accrue. The netting agreement that we recently entered into for the purpose of setting off amounts owing to Dynegy and its other affiliates under a services and facilities agreement, which includes tax sharing provisions between us and Dynegy, against unpaid interest payments under our intercompany note receivable with Illinois could be deemed unenforceable. Further, even if the netting agreement were to be enforced, the failure of interest to accrue under our intercompany note receivable would provide us with no unpaid interest payments against which to exercise our right of offset under the netting agreement. If this were to occur, we may be required to continue to make payments to Dynegy and certain of its affiliates under the services and facilities agreement even though we are not receiving interest payments under the intercompany note receivable. In the event of a bankruptcy, we may disagree with Dynegy on the interpretation of the terms of the services and facilities agreement.

Notwithstanding the enforceability of the netting agreement or whether Illinois would be included in a Dynegy bankruptcy, failure of interest to accrue under Illinois's intercompany note receivable with Dynegy could result in our failure to receive interest income under our intercompany note receivable with Illinois. Because we rely on interest income under this intercompany note receivable for a substantial portion of our cash flows, the loss of such interest income, particularly in conjunction with a continued obligation to pay amounts owed under the services and facilities agreement with Dynegy, would materially adversely affect our ability to service our debt obligations, including the Offered Bonds, and could result in our own filing for bankruptcy protection. Accordingly, holders of the Offered Bonds could be forced to pursue recovery of their investment against the assets securing such Offered Bonds, the value of which may be insufficient to support full recovery.

In addition, if Dynegy were to file for bankruptcy protection, it is possible that Dynegy or a third party could petition the bankruptcy court to substantively consolidate our assets and liabilities with those of Dynegy. If such a petition were made, the bankruptcy court would make its ruling after considering a number of factors, including the overlap of the creditor groups, the business operations or the directors and officers of Illinois Power and Dynegy, whether Illinois Power creditors would be prejudiced, whether we have maintained separate books and records from Dynegy including whether we have been separately audited, whether our operations have been

governed by a separate regulatory body, whether transactions between us and Dynegy were conducted on an arms length basis and the length of time we and Dynegy have been in the same corporate group. If, after considering these and such other equitable factors as it deems relevant, the bankruptcy court were to substantively consolidate our assets and liabilities with those of Dynegy, holders of the Offered Bonds should, under current bankruptcy laws, maintain their lien position in the assets securing such Offered Bonds. However, substantive consolidation with Dynegy could delay your ability to recover against those assets.

We depend upon long-term arrangements with third parties, including Dynegy, for substantially all of the power we purchase for resale to our customers.

We own no significant generating assets and obtain substantially all of our electricity through long-term power purchase agreements with others. We obtain more than two-thirds of our electricity from DMG, an indirect wholly owned subsidiary of Dynegy, with whom we have a power purchase agreement that provides us with the right to purchase our full requirements for power from DMG for a primary term extending through December 31, 2004. The primary term may be automatically extended on an annual basis unless cancelled by either party on 12 months' notice; however, in light of the recent two-year extension of the retail electric rate freeze, we are currently in negotiations to extend this agreement through at least 2006 on terms and conditions and at prices to be agreed between the parties. The FERC and the ICC must approve any such extension. The power purchase agreement specifies the prices, terms and conditions under which DMG will provide power and energy to us. These prices, terms and conditions may not be materially amended without FERC and ICC approval. If we are unable to agree with DMG on an extension of the power purchase agreement, we will be forced to purchase substantially all the electricity we are required to supply our customers in the open market at then current market prices.

The agreement requires us to compensate DMG for reserved capacity through charges of approximately \$328.8 million in 2003 and approximately \$310.8 million in 2004. We must pay these capacity charges to DMG regardless of the amount of electricity we actually purchase to serve our customers. The agreement also provides that we pay for any electricity actually purchased based on a formula that includes various cost factors, primarily related to the cost of fuel, plus a market price for amounts in excess of our reserved capacity. We believe this arrangement, together with our other long-term arrangements, provides us with an adequate power supply to cover our expected load plus a reserve supply above that level. However, if DMG defaults on its power supply obligations to us or if for any other reason we do not receive power to cover our actual load, either from DMG or through our other power purchase arrangements, we will be required to buy power from third parties at then current market prices and may be required to provide credit support or collateral for such purchases. If current market prices at that time exceed the prices at which we currently purchase power or an alternative supply is not available, our financial condition and results of operations would be materially adversely affected.

An inherent conflict of interest may exist because all of our directors and a significant number of our executive officers are directors and officers of our indirect parent, Dynegy. In addition, Dynegy may make decisions that could be adverse to our interests.

All of our directors and a significant number of our executive officers are directors and officers of our indirect parent, Dynegy. As such, there may be inherent conflicts of interest because these persons serve both Dynegy and us. In addition, decisions made at Dynegy, including timing of financing and capital raising activities, dispositions of assets, payments to creditors, including our intercompany note receivable, and other business matters could be adverse to our interests.

Your ability to recover from our former auditors, Arthur Andersen LLP, for any potential financial misstatements is limited.

On March 15, 2002, Dynegy, at the recommendation of its Audit Committee, decided to no longer engage Arthur Andersen LLP as independent public accountants of Dynegy and its subsidiaries, including us, and

engaged PricewaterhouseCoopers LLP to serve as independent public accountants of Dynegy and its subsidiaries, including us, for 2002. Our audited consolidated financial statements as of December 31, 2001 and 2000 and for each of the years in the two-year period ended December 31, 2001, which are incorporated by reference into this offering memorandum, have been audited by Arthur Andersen, our former independent public accountants, as set forth in their reports; however, Arthur Andersen has not consented to our incorporation by reference of these reports.

Arthur Andersen completed its audit of our consolidated financial statements for the year ended December 31, 2001 and issued its report with respect to such consolidated financial statements on February 25, 2002. Subsequently, Arthur Andersen was convicted of obstruction of justice for activities relating to its previous work for Enron Corp. and has ceased to audit publicly held companies. We are unable to predict the impact of this conviction or whether other adverse actions may be taken by governmental or private parties against Arthur Andersen. If Arthur Andersen has no assets available for creditors, investors in the Offered Bonds may not be able to recover against Arthur Andersen for any claims they may have under securities or other laws as a result of Arthur Andersen's previous role as our independent public accountants and as author of the audit report for the audited financial statements incorporated by reference into this offering memorandum.

The Offered Bonds contain triggering events that may adversely affect our ability to operate our business.

The Offered Bonds contain triggering events that could require us to redeem the Offered Bonds if we violate restrictions regarding:

- the payment of dividends and other distributions with respect to our capital stock or the purchase, redemption or retirement of our capital stock;
- incurrence of additional indebtedness or issuance of additional preferred stock;
- the use of proceeds from asset sales;
- transactions with affiliates;
- incurrence of liens on assets to secure certain debt;
- engagement in sale and leaseback transactions;
- engagement in certain business activities; and
- engagement in certain mergers, consolidations or transfers of assets.

Our ability to avoid the occurrence of a triggering event may be affected by many events beyond our control. If such a triggering event occurs and a redemption of the Offered Bonds is required, we may not have sufficient funds to redeem the Offered Bonds.

The holders of all of the Offered Bonds may not have the power, acting alone, to enforce the lien of the Mortgage.

If a triggering event occurs with respect to the Offered Bonds and we are unable to satisfy our redemption obligation under the Supplemental Indenture, an event of default will occur under the Mortgage. If an event of default occurs, collective action by holders of not less than 33% in principal amount of all of the then outstanding Mortgage Bonds, including holders of the Offered Bonds, is required to enforce the lien of the Mortgage. After giving effect to this offering, including the offering of the Delayed Delivery Bonds, there will be approximately \$1.6 billion aggregate principal amount of Mortgage Bonds outstanding under the Mortgage and enforcing the lien of the Mortgage will require the collective action by holders of not less than approximately \$540 million (33% of currently outstanding Mortgage Bonds) of Mortgage Bonds. Accordingly, if the Delayed Delivery Bonds are issued, the holders of all of the Offered Bonds would have the power, acting alone, to enforce

the lien of the Mortgage. However, if the Delayed Delivery Bonds are not issued, the holders of all of the Offered Bonds would not have the power, acting alone, to enforce the lien of the Mortgage. Moreover, additional securities may be issued under the Mortgage on the basis of (i) 75% of net utility property additions and (ii) the principal amount of retired Mortgage Bonds. As of September 30, 2002, we had the capacity to issue approximately \$974 million of additional debt under the Mortgage. The issuance of any such debt securities could dilute the relative ownership position of the holders of the Offered Bonds so that, even if the Delayed Delivery Bonds are issued, the holders of the Offered Bonds would not have the power, acting alone, to enforce the lien of the Mortgage.

We may be unable to repurchase the Offered Bonds if we experience a change in control.

We are required, under the terms of the Offered Bonds, to offer to purchase all of the outstanding Offered Bonds if Dynegy, Illinova or we experience a change of control. Our failure to repay holders tendering Offered Bonds upon a change of control will result in an event of default under the Offered Bonds. If a change of control were to occur, we cannot assure you that we would have sufficient funds to purchase the Offered Bonds, or any other securities that we would be required to offer to purchase. We expect that we would require additional financing from third parties to fund any such purchases but we cannot assure you that we would be able to obtain such financing. Please read "Description of the Offered Bonds—Repurchase at the Option of Holders—Change of Control."

There are restrictions on your ability to resell or transfer the Offered Bonds without registration under applicable securities laws.

The Offered Bonds are being offered and sold pursuant to an exemption from registration under the Securities Act and applicable state securities laws. Therefore, you may resell or transfer the Offered Bonds in the United States only in a transaction registered under or exempt from the registration requirements of the Securities Act and applicable state securities laws, and you may be required to bear the risk of your investment for an indefinite period of time. We are obligated to use our commercially reasonable efforts to commence an offer to exchange the Offered Bonds for publicly tradable Mortgage Bonds with terms identical in all material respects or, in certain circumstances, register the reoffer and resale of the Offered Bonds under the Securities Act. Please read "Exchange Offer; Registration Rights" and "Notices to Investors."

Your ability to transfer the Offered Bonds may be limited by the absence of an active trading market, and there is no assurance that any active trading market will develop for the Offered Bonds.

The Offered Bonds are a new issue of securities for which there is no established public market. We do not intend to have the Offered Bonds listed on a national securities exchange or included on any automated dealer quotation system, although we expect that they will be eligible for trading in the PortalSM Market. The initial purchasers have advised us that they intend to make a market in the Offered Bonds, and the Exchange Bonds, if issued, as permitted by applicable laws and regulations; however, the initial purchasers are not obligated to make a market in the Offered Bonds or the Exchange Bonds, and they may discontinue their market-making activities at any time without notice. Therefore, we cannot assure you that an active market for the Offered Bonds or Exchange Bonds will develop or, if developed, that it will continue. Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Offered Bonds. We cannot assure you that the market, if any, for the Offered Bonds or Exchange Bonds will be free from similar disruptions or that any such disruptions may not adversely affect the prices at which you may sell your Offered Bonds. In addition, subsequent to their initial issuance, the Offered Bonds or Exchange Bonds may trade at a discount from their initial offering price, depending upon prevailing interest rates, the market for similar bonds, our performance and other factors.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, including the offering of the Delayed Delivery Bonds, will be approximately \$520 million, after deducting the initial purchasers' discount and estimated offering expenses. Pursuant to the ICC approval order relating to the offering of the Initial Delivery Bonds, we are required to apply all of the net proceeds from the sale of the Initial Delivery Bonds to:

- refinance \$96 million of our 6.25% Mortgage Bonds, which we paid at maturity on July 15, 2002; and
- repay a portion of our \$300 million term loan, which matures in May 2003.

Our \$300 million term loan currently bears interest at a rate of approximately 2.6% per annum. We do not expect to repay our \$300 million term loan prior to its maturity unless we are able to successfully negotiate a new bank credit facility on terms acceptable to us and our lenders to replace all or a portion of the maturing facility.

Pending the ICC's approval of our issuance of the Delayed Delivery Bonds and the application of the net proceeds therefrom, the net proceeds from the offering of the Delayed Delivery Bonds will be placed into escrow. Upon receipt of the required approval by the ICC and the release of the associated net proceeds by the escrow agent in exchange for the issuance of Delayed Delivery Bonds, we intend to apply all of the net proceeds from the sale of the Delayed Delivery Bonds to:

- repay our \$100 million 6.50% Mortgage Bonds, which mature in August 2003; and
- repay a portion of our \$90 million 6.00% Mortgage Bonds, which mature in September 2003.

Pending these actions, the net proceeds of this offering will be invested in cash or cash equivalents.

CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2002, both actual and as adjusted to give effect to the sale of the Offered Bonds and the application of the estimated net proceeds therefrom, after deducting the initial purchasers' discount and estimated offering expenses.

As described above under "Use of Proceeds" and subject to ICC approval of the issuance of the Delayed Delivery Bonds, the net proceeds from this offering will be used (1) to refinance \$96 million of our 6.25% Mortgage Bonds, which we paid at maturity in July 2002, (2) to repay a portion of our \$300 million term loan, which matures in May 2003, (3) to repay our \$100 million 6.50% Mortgage Bonds, which mature in August 2003, and (4) to repay a portion of our \$90 million 6.00% Mortgage Bonds, which mature in September 2003.

	At September 30, 2002	
	Actual	As Adjusted
	(in millions)	
Cash and cash equivalents(1)	\$ 30	\$ 550(2)(3)
Short-term debt		
One-year term loan	\$ 300	\$ 300
Current portion of long-term debt	190	190
Current portion of transitional funding trust note payments	86	86
Total short-term debt	576	576
Long-term debt		
Mortgage Bonds outstanding, net of current portion	899	899
Offered Bonds	—	550(3)
Transitional funding trust notes outstanding, net of current portion	452	452
Total long-term debt	1,351	1,901
Total debt	1,927	2,477
Common stock equity	1,356	1,356
Preferred stock	46	46
Total capitalization	\$3,329	\$3,879

- (1) Since our consolidated balance sheet includes the assets of the special purpose trust that has issued the Transitional Funding Trust Notes, cash and cash equivalents includes approximately \$18 million of cash restricted for paying principal and interest on the Transitional Funding Trust Notes.
- (2) Pending the application of the net proceeds of the offering as described under "Use of Proceeds," the net proceeds of this offering will be invested in cash or cash equivalents.
- (3) Assumes that the \$150 million in aggregate principal amount of Delayed Delivery Bonds are issued following approval of such issuance by the ICC. If the ICC does not approve such issuance on or before January 31, 2003, we will not receive the estimated \$142.5 million of net proceeds associated with the Delayed Delivery Bonds and the escrow agent will release the net proceeds associated with such Delayed Delivery Bonds (including any amounts earned on such proceeds while the funds are held in escrow) to the initial purchasers for the benefit of the purchasers of the Offered Bonds. Additionally, in such event, we will be required to remit, for the benefit of the purchasers of the Offered Bonds, an amount equal to the interest that would have accrued on the Delayed Delivery Bonds had they been issued on December 20, 2002, less the earnings on the escrowed funds. Please read "Description of the Offered Bonds—Dates of Issue; Escrow of Proceeds of Delayed Delivery Bonds" for further discussion.

SELECTED HISTORICAL FINANCIAL INFORMATION

The following table sets forth selected consolidated financial information for us and our subsidiaries. The selected consolidated financial information for the three fiscal years in the period ended December 31, 2001 has been derived from our audited consolidated financial statements. PricewaterhouseCoopers LLP audited our consolidated financial statements for the fiscal year ended December 31, 1999 and Arthur Andersen LLP audited our consolidated financial statements for the fiscal years ended December 31, 2000 and December 31, 2001. Arthur Andersen has not consented to our incorporation by reference in this offering memorandum of their reports relating to these financial statements. Please read the risk factor titled "Your ability to recover from our former auditors, Arthur Andersen LLP, for any potential financial misstatements is limited." The selected consolidated financial information for the nine months ended September 30, 2002 and September 30, 2001 has been derived from our unaudited consolidated financial statements and includes, in the opinion of our management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the information for those periods. The financial information presented below may not necessarily be indicative of our financial position or results of operations in the future. You should read this information with our consolidated financial statements and notes thereto.

	Years Ended December 31.			Nine Months Ended September 30,	
	1999	2000	2001	2001	2002
	(\$ in millions)				
Operating Revenue					
Electric	\$1,178.6	\$1,189.4	\$1,137.1	\$ 886.3	\$ 888.9
Electric interchange	420.2	2.7	0.7	0.7	7.1
Gas	304.4	393.5	476.6	384.3	247.0
Total operating revenues	<u>1,903.2</u>	<u>1,585.6</u>	<u>1,614.4</u>	<u>1,271.3</u>	<u>1,143.0</u>
Depreciation and amortization	\$ 151.8	\$ 77.6	\$ 80.9	\$ 60.7	\$ 60.9
Amortization of regulatory assets	26.4	50.6	51.2	38.4	38.4
Operating income	217.7	156.0	166.5	146.8	138.3
Interest income from affiliates	52.9	175.3	171.0	127.4	127.7
Interest expense	148.4	139.1	123.5	94.4	83.6
Net income	113.1	134.9	166.2	148.5	137.6
Net income applicable to common stock	95.6	121.0	157.9	140.8	135.9
Cash dividends declared on common stock	40.8	—	100.0	100.0	0.5
Total assets	5,297.8	4,971.7	4,861.1	4,935.0	4,825.4
Capitalization					
Common stock equity	\$1,035.2	\$1,156.3	\$1,221.9	\$1,197.3	\$1,356.3
Preferred stock	45.8	45.8	45.8	45.8	45.8
Mandatorily redeemable preferred stock	193.4	100.0	—	—	—
Long-term debt, net of current portion	1,906.4	1,787.6	1,605.6	1,627.3	1,350.6
Current portion of long-term debt	236.4	86.4	182.1	182.1	276.4
Short-term debt	327.3	147.8	278.2	246.0	300.0
Total capitalization (1)	<u>\$3,744.5</u>	<u>\$3,323.9</u>	<u>\$3,333.6</u>	<u>\$3,298.5</u>	<u>\$3,329.1</u>
Retained earnings	\$ 54.7	\$ 175.7	\$ 233.6	\$ 216.5	\$ 367.7
EBITDA(2)	506.8	484.2	537.3	437.7	416.9
Capital expenditures	197.2	157.8	148.8	105.3	101.8
Cash flows from operations	85.8	381.3	345.0	179.2	218.6
Cash flows from investing activities	(120.2)	172.9	(146.7)	(102.6)	(97.7)
Cash flows from financing activities	(446.6)	(553.6)	(169.8)	(79.5)	(143.9)
Ratios of earnings to fixed charges(3)	2.16x	2.53x	3.25x	3.56x	3.75x

- (1) For purposes of this offering memorandum, we have included short-term debt and current portions of long-term debt in our total capitalization.
- (2) EBITDA (earnings before interest, taxes, depreciation and amortization), which is a non-GAAP measure, is presented here to provide additional information about our operations. EBITDA includes interest income under our intercompany note receivable and the revenues associated with electric customer billings that are

set aside for principal and interest payments on our Transitional Funding Trust Notes. Principal payments under such Transitional Funding Trust Notes were \$86.4 million for each of the years ended December 31, 1999, 2000 and 2001 and \$64.8 million for each of the nine-month periods ended September 30, 2001 and 2002. Interest expense under the Transitional Funding Trust Notes was \$45.4 million, \$40.4 million and \$35.9 million for the years ended December 31, 1999, 2000 and 2001, respectively, and \$27.4 million and \$23.9 million for each of the nine-month periods ended September 30, 2001 and 2002, respectively. Please read Note 8, "Income Taxes," to the audited financial statements included in our annual report on Form 10-K for the year ended December 31, 2001 for information relating to our total income taxes. EBITDA should not be considered as an alternative to net income as an indicator of our operating performance or as an alternative to cash flows as a better measure of liquidity. Additionally, our calculation of EBITDA may not be comparable to a similarly titled measure reported by other companies, since all companies do not calculate EBITDA in the same manner.

- (3) For purposes of calculating the ratios of earnings to fixed charges, earnings consist of income from continuing operations before income taxes and fixed charges (excluding capitalized interest). Fixed charges consist of interest expense; amortization of debt expenses and other related amounts, and other interest charges; and the portion of lease rental expense representative of the interest factor attributable to such leases.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is not complete and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2001 and in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.

Overview

We operate as a regulated utility engaged in the transmission, distribution and sale of electric energy and the distribution, transportation and sale of natural gas across a 15,000-square-mile area in the State of Illinois. Illinova Corporation is the sole holder of our common stock and owns approximately 73% of our preferred stock. We are an indirect wholly owned subsidiary of Dynegy Inc.

Our condensed consolidated financial statements include the accounts of Illinois Power: Illinois Power Capital, L.P. (inactive as of May 30, 2000); Illinois Power Financing I (inactive as of September 30, 2001); Illinois Power Financing II (not currently active); Illinois Power Securitization Limited Liability Company; Illinois Power Special Purpose Trust; and Illinois Power Transmission Company LLC (not currently active). All significant intercompany balances and transactions have been eliminated from the condensed consolidated financial statements. All nonutility operating transactions are included in the line titled "Miscellaneous—net" in our Condensed Consolidated Statements of Income. Certain prior year amounts have been reclassified to conform to the current year presentation.

We were a leader in the development of the comprehensive electric utility regulatory reform legislation for the State of Illinois, which provided the foundation for our subsequent strategic actions and transformation. Following the successful execution of our strategy to transfer our wholly owned generating assets to an unregulated status and to exit our nuclear operation, we are now focused on delivering reliable transmission and distribution services in a cost-effective manner.

Consolidated Results of Operations

As a result of the enterprise changes impacting us during the fourth quarter of 1999, our operations now consist of a single reportable segment. For the first nine months of 2002 and the years ended December 31, 2001 and 2000, this segment includes the transmission, distribution and sale of electric energy in Illinois and the transportation, distribution and sale of natural gas in Illinois. Also included in this segment are specialized support functions, including accounting, legal, regulatory, performance management, information technology, human resources, environmental resources, purchasing and materials, management and public affairs. For comparability purposes, results for 2001 and 2000 should be compared with the Customer Service segment from the previous period.

Regulators historically have determined our rates for electric service, the ICC at the retail level and the FERC at the wholesale level. The ICC determines our rates for gas service. These rates have been designed to recover the cost of service and allow shareholders the opportunity to earn a reasonable rate of return. As described in "Business—Open Access and Competition" below, P.A. 90-561 phases in a competitive marketplace for electric generation while maintaining cost-based regulation for electric delivery services and protecting the financial integrity of our company during the transition period. Future electric and natural gas sales will continue to be affected by an increasingly competitive marketplace, changes in the regulatory environment, transmission access, weather conditions, gas cost recoveries, customer conservation efforts and the overall economy.

For both 2001 and 2000, we had four measures that we monitored regarding our financial performance. They were Operating Margin; Earnings Before Interest and Taxes, referred to as "EBIT;" Cash Flow; and Return on Net Invested Capital, referred to as "RONIC." For 2001, our Operating Margin, EBIT and RONIC were